

# Audit for the Treasury Function

2 Days

## COURSE OVERVIEW

- To enable delegates to understand and be able to identify and record the various risks inherent in treasury
- To familiarize delegates with the required internal management and control framework required to manage treasury and internal control functions
- To enable delegates to identify audit objectives and the correct audit approach
- To enable delegates to design effective and efficient audit programs
- To enable delegates to produce high quality audit reports for treasury activity

## LEVEL

Intermediate

## WHAT WILL I GET OUT OF IT?

Participants will walk away with the following:

- Gain an understanding of what 'typical' treasury functions entail
- Gain an understanding of what is in the 'mind of the trader'?
- Case studies on where treasury functions have failed in the past – this will allow us to circumvent problems of the future
- Learn that prevailing accounting standards have 'flaws' – how to look beyond the financial statements
- Checklist for improved audit for the treasury functions
- The ability to design and improve audit activity which should change as treasury cycles change and rebalance

## WHO IS IT FOR?

The course is designed for both internal and external auditors covering both financial and operational auditing. Audit staff from Heads of audit departments through to field staff involved in the audit of treasury will benefit greatly from the course.

## THINGS TO BRING

Delegates are required to bring along a financial calculator

## COURSE CONTENT

### The Organization Structure of Treasury

- Typical organization structure
- Front office
- Middle office
- Back office
- Importance of segregation of duties

### Treasury Products

- Components of Treasury Products
  - Securitisation
  - Forwards
  - Optionality
- Defining Physicals
- Defining Derivatives
- Money Market and Debt Securities
- Foreign Exchange Products
- Derivatives
  - Forward Rate Agreements
  - Futures
  - Repurchase Transactions (Repos)
  - Forward Foreign Exchange
  - Interest Rate and Currency Swaps
  - Options

### Fair Value and the Marking to Market Of Treasury Products

- What is MTM and FV?
- The issues with FV Accounting
- The US Sub-Prime issue and what it told us about FV accounting
- Importance of fair value in accounting for treasury products
- Accounting uses of fair value:
  - Performance measurement
  - Carrying value
  - Disclosure
- Fair Value vs Accrued Value

### Inherent Risks in Treasury

- Strategic risk
- Market risk
- Liquidity risk
- Credit risk
- Forex risk
- Operational risk
- Transaction risk
- Compliance risk
- Reputational risk

### Internal Control Framework

- Inherent Risks in using exchange traded derivatives
- OTC contracts
- The management and control system

- Control Risks
- Role of Internal Audit
- Role of External Audit

### **Auditing Framework**

- Objectives of Auditing
  - External Audit (Refer local auditing requirements)
  - Internal Audit
    - Financial Auditing
    - Operational Auditing
- External Audit
  - Key attributes
    - Completeness (Deals recorded)
    - Accuracy (Calculated, Recorded, Proper Period)
    - Valuation (Credit, Market value, risk provisions)
    - Legally binding (Contract, power to deal)
- Internal Audit
  - Key Attributes
    - As for external audit
    - Efficiency
    - Effectiveness (Risk management)
    - Economy
- Internal Control System for handling exchange traded futures and options

### **The Audit Approach**

- Identifying and measuring the risk factors
- Identifying and documenting the management and control system
- Identifying the aspects of the management and control system at risk
- Reviewing the adequacy of the management and control system

### **Designing the Audit Work Program**

- Identify key risks
- Identify key aspects of internal control system
- Review adequacy of key parts of internal control system
- Identify attributes affected by risks
- Test validity of attributes at risk

### **Carrying Out the Audit Work**

- Key audit issues with treasury
  - Completely recorded in timely manner
  - Off premises trading
  - Unauthorised trading
  - Trading vs. hedging designation
  - Intra day position breaches
  - Monitoring near to settlement trades
  - Monitoring of liquidity risk
  - Deposit and margin reconciliations
  - Valuation and liquidity
  - Concentration of transactions
- Audit techniques

### Case Studies

- Proctor & Gamble
- Barings Bank
- Allied Irish Bank
- National Australia Bank
- LTCM